

PAPERS MARKET Q3 2022

Trends & Outlook

“The supply lines into the papers market remain challenged and mills advise of full order books, increased lead times and rising input costs”

COST DRIVERS

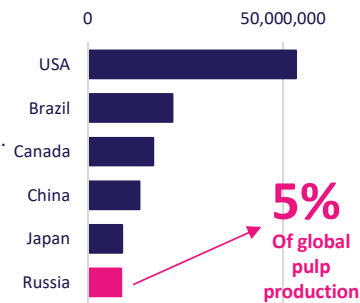
Global Impact of Russia / Ukraine Situation

We are four months into the invasion of Ukraine by Russia. Paper production from leading Mill groups that have large production facilities situated in Russia have been massively impacted and this product is no longer available to the Global Markets. Production has either ceased, reduced or of course been impacted by trade embargo's.

Russia is also a heavily forested region and is ranked globally as the sixth largest producer of wood pulp accounting for 5% of the total global production. Pulp is traded as a global commodity and history tells us that the markets do react to uncertainty and this usually results in price inflation.

As widely communicated in news headlines, Russia is also a major provider of gas to many countries and the drive to reduce reliance upon Russian gas and purchase elsewhere - will almost certainly stimulate costs or even result in power rationing in certain countries.

Top 6 Global Pulp Producers Annual Mts



Energy

Energy prices globally have been at the highest costs ever seen, European gas in particular is almost six times higher in 2022 versus 2020.

OUTLOOK :Given current high pricing and reduced demand through the summer months, additional pressures of reduced Russian supply and increasing demand as we move into the colder months in Q4 its highly likely that costs will increase further.



Pulp Prices

Pulp, accounts for over half of the input cost of producing paper. Since Jan '21 prices have been rising steadily, hitting an all time high in Q1 2022 @ \$1340/mt, up from an average in 2021 of \$830/mt. After a slight softening in H1 2022 prices have risen again to superseded the previous high and currently sit at \$1420/Mt (NBSK) & \$1295 (BHKP). This equates to a 71% uplift from 2020 costs.

+71%

Shipping

Freight costs remain at significantly higher rates than pre-pandemic but have been declining. The bigger challenge is around container and vessel availability, both limiting options for paper manufacturers that export to the UK/European markets.

Other Costs

Asides from the main cost inputs which account for the bulk of the cost makeup, other inputs such as chemicals, fuel, labour have all risen considerably.

MARKET TRENDS



Digital Print

Commercial print saw a huge fall in demand through 2020, but demand for digital papers and print was less affected during COVID and is recovering faster. Embellishments are on trend, and the co-ordination of marketing activity with Digital Media and Digital Print are growing in popularity. Personalisation and targeted campaigns are now more accessible.



Sustainability

Appears higher on most peoples agenda and focus on Carbon Offsetting and Sustainability Schemes are prevalent. Interest in paper based alternatives to plastics has increased, driven by higher consumer awareness and further stimulus expected following the introduction of the plastics tax.



Price Inflation

Energy surcharges are now the single biggest driver in costs for paper manufacturing. Pulp prices remain high but gas, one of the main sources of producing energy is at record high levels. Energy costs are expected to rise further as demand increases as we approach winter.

SUPPLY & DEMAND



Changes in working practices

Following the compulsory work from home directive issued during COVID our working lives have been altered dramatically with many people now choosing to hybrid work, part at home/part in the office. This has been particularly prevalent in major cities, e.g. London where a recent survey indicated that office workers were some 30% down compared to pre-pandemic working. There is evidence of a continuing gradual return but given the flexibility in working habits now established - a full return is not likely.

Paper Manufacturing

Over the last 2 years significant wood free uncoated capacity has been closed or repurposed, mainly attributed to demand decline during COVID or production viability given rapidly increasing input costs.

Whilst demand has been recovering in all papers areas following the recovery period post pandemic, the most dramatic increase in demand and longer term predictions are around container board for manufacturing packaging products. There are several examples of Paper Mills moving away from UWF sheet production, this is a trend that will only continue, as demand for UWF declines and demand for packaging products is expected to increase.



OUTLOOK

“When will prices start to come down” ...

In “normal times” the biggest challenge the Papers Markets had to contend with was the gradual reduction in consumption as digitisation accelerated and read from screen increased in our everyday lives. The market now faces multiple challenges, with most of these it is not possible to envisage when these will subside, or indeed what the new normal will eventually look like.

Listed to the right are perhaps the seven most challenging dynamics we are currently experiencing, at best we would look for pricing stability but there are also strong indications that further price inflation will be seen.

“Multiple Challenges”

- Capacity Reductions
- Paper Based Packaging +
- Extended Lead times
- Shipping Disruption
- Energy Inflation
- Russia / Ukraine
- Digitisation